

No. 2766

United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

FRANK MENEFEE, B. F. BONNEWELL, H. M. TODD and
OSCAR A. CAMPBELL,
Plaintiffs in Error,

VS.

UNITED STATES OF AMERICA,
Defendant in Error.

PETITION FOR REHEARING

Writ of Error to the District Court of the United
States for the District of Oregon.

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Come now the plaintiffs in error and move the
court for a rehearing, and as grounds therefor make
the following statement:

We have no desire to reargue the questions presented in our brief to which the opinion of the court is fully responsive. That brief is the best argument we can make, and if it has not been persuasive with the court, a repetition of the argument would doubtless be futile.

We first call the court's attention to a ruling of the court, over our objection, to which we respectfully contend that the opinion of the court is not responsive. That relates to the testimony of Mr. Oviatt, and is contained in the first and second assignments of error, pages 20 to 22 of our brief. It may be briefly stated that the tendency of Mr. Oviatt's testimony was to prove that he was the first inventor of the machine which Bilyeu afterwards patented; that he had made a disclosure of his invention to Bilyeu, and that Bilyeu afterwards repudiated him and got a patent in his own name. If the testimony proved what it tended to prove,—that Oviatt and not Bilyeu was the real inventor—then Oviatt would have had a cause of suit against Bilyeu to establish his rights in the invention, and perhaps hold Bilyeu as trustee for him of the patent. This transaction between Oviatt and Bilyeu occurred in 1909. The conspiracy here is alleged to have begun on the 1st of September, 1910. Under the law of conspiracy at the time Bilyeu was not the agent of any of the defendants. They were not bound by any of his conduct, nor presumed to know of the transaction. The objection made by counsel for defendants to all of the Oviatt evidence is found on pages 52 and 53 of our brief. The objection, briefly stated, was that the question of the right to this patent, as between Oviatt and Bilyeu or the defendants, could not be tried in this proceeding. In ruling upon this question, page 56 of our brief, the court below held that this particular testimony was admissible be-

cause in 1912, three years afterwards, "LeMonn made a visit East and learned of this particular instrument, and that it was being manufactured, and that he sent certain letters and certain telegrams to Mr. Menefee relative to this matter, and advised a certain course of procedure, which the evidence shows the company subsequently took, and for that purpose I think this testimony of their connection with this patent is material in this case to show their good faith."

But this court, in passing upon this objection, has apparently left out of consideration the specific testimony and the specific objection thereto, and has decided that the letters and telegrams and conduct of defendants in selling stock and selling their own stock was admissible because they had knowledge of the Payograph, a competing machine, which might affect the value of their own patent. But we submit that was not the question presented by this objection. For the purposes of this point, we may concede that the court is right in that holding, and that if the defendants sold stock after they knew that Oviatt had a machine that was valuable, and a competing machine that affected the value of their own enterprise, and which they believed would affect the value of their own enterprise, such would be a fraudulent representation of the value of their own stock and of the stock of the company. But how does that touch the question? It was the competition of the Payograph machine that the court holds

affected the value of the stock, and not that Oviatt had a better right to the patent. So that the first paragraphs of the opinion of this court, in relation to this matter, we believe are not responsive to the question that we now present. To make that apparent we quote from the opinion of the court:

“It is true that there was no substantive issue involving the validity of the Bilveu patent, but there was a vital question as to the honesty of the conduct of the defendants in offering for sale and selling shares of stock in the Cashier Company under representations mailed to various persons as to present and prospective value of the patent rights, the foundation value of such shares. This being true, if the defendants who made such representations were well advised when they put them forth that there was a *competing patented machine* on the market, or about to be marketed, and that putting the *competing device* into the market would, with reasonable certainty, mean substantial impairment of the value of the shares in the Cashier Company, which depended not upon the validity, but upon the value of the patent owned by the Cashier Company, and if despite such knowledge defendants continued their representations of value of their patent to investors, and proceeded to dispose of their own stock because of their belief that the *competing patented device* would substantially lessen the value of the Bilveu patent and shares in the Cashier Company, we believe actions and letters showing such conduct became relevant upon the issue of good

faith in the making of the representations concerning the value of the stock defendants were trying to dispose of."

So it seems to us that the court was deciding, not the question raised by the first and second assignments of error, but another and a very different question—the relevancy and admissibility of the evidence concerning the meeting of LeMonn and Oviatt in Chicago, and the letters and telegrams relating thereto.

But this court, later in the opinion, seems to touch the question, but omits therefrom an important element. We quote from the opinion :

"The question of bad faith, however, was not dependent solely upon positive proof that there was a legally established outstanding right. There might not have been an outstanding established legal right, and still, if there were claims of inventions and priority which defendants knew of and honestly believed could be established as valid, and which they believed had enough merit in them to affect the value of the patent rights owned by defendants, such a situation would have relation to the good faith of the persons making to prospective investors representations as to the value of shares, and so would have decided bearing upon the allegations of the indictment charging fraud and deceit in the representations made to the investing public as to the value of the devices made, or to be made, under the patents to which defendants asserted, or had, ownership."

In that statement the court, if it refers to Oviatt's claim of priority to the invention, assumes what is not true, that the other defendants knew about that claim or honestly believed that Oviatt had a claim that might be established as valid. The record shows that the contrary is true. As we have already indicated, no knowledge of that claim is imputed to the defendants, or could be imputed to them, when the testimony was offered by reason of the transactions occurring between Oviatt and a co-conspirator, because Bilyeu was not even charged in the indictment to have been a conspirator at that time. If the defendants were to be affected by that transaction, knowledge of it at the time they made their representations would have to be shown by proof. It has not been contended or pretended, in the record of the court below nor in this court, that in the transactions of the defendants concerning the Payograph they had any knowledge of the supposed infirmity of the Bilyeu patent on account of Oviatt's claim. The testimony concerning that is found on pages 174, *et seq.*, and particularly the interview between Le Monn and Oviatt on pages 179, *et seq.*, Transcript of Record. There is no intimation contained in the testimony anywhere that any of the defendants knew of Oviatt's claim to the patent right, or that it could affect injuriously their own patent. The whole thing went upon the question of competition.

It follows that the evidence objected to was not relevant to any issue in the case. That it was highly prejudicial can admit of no sort of doubt.

As to the Sewell testimony, the court holds that the effect of the instructions of the court was to take out of the case all of the Sewell testimony except those explanations which bore upon the mechanical features, and the state of the art before and at the time the defendants made representations to investors, or others who might be purchasers of the stock in the Cashier Company. But is that the effect of the instructions? It is not the effect of the instructions, if the authorities we cited in our brief upon that question are to prevail. Let it be remembered that there were a great many patents cited against the patents of the defendants to which Mr. Sewell testified. The court, in its instruction, said nothing about these citations directly and specifically. What the court said in the instructions, for instance, is this:

“But if at the time these representations were made the company did in fact have patents, issued by the Patent Office of the United States, for any of the machines, the representations, so far as that particular machine was concerned, would not be false.”

Of course that is obvious. And then the court said:

“Bad faith or fraudulent misrepresentations cannot be imputed to the defendants in respect of patents in fact issued, and owned by them, or in respect to claims that are in fact allowed because of some *alleged infringement*.”

That sentence does not refer to the citations. Again the court said:

“There is a presumption of law that, where a patent is issued by the United States Patent Office, it does not infringe any known patent and a patentee in accepting such patent is not thereby guilty of bad faith.”

That does not refer to the citations offered in evidence. And it might be true that this presumption of law exists, but it is only a presumption, and the jury might well infer from this record that that presumption was overcome by the fact that the department made citations of prior patents. The court again said:

“You are not called upon to decide in this case whether the patents issued or the claims allowed were in fact an infringement of some invention or patent, or were dominated or affected injuriously by the Osborne and Lindeloff or the Cook patents, or any previous invention, and the evidence of the witness Sewell to that effect should be disregarded.”

The court has agreed with us that Mr. Sewell's opinion about the injurious effect of these antecedent inventions was improperly allowed, but his opinion concerning their influence is all that went out under this instruction. The citations remained.

As to the effect of these citations, the court had explicitly ruled upon their effect, which ruling re-

mains in the case, we believe, unaffected by these general instructions. On page 76 of our brief Mr. Sewell testified that nobody in the patent office gave an opinion to Mr. Bilyeu about the dominating control referred to, whereupon counsel for the defendants said: "I think I am entitled to have that out, for it did not go to Mr. Bilyeu." The court said: "I understand they notified him of this prior patent." Counsel for defendant said: "They did not notify him of the witness' opinion as an expert, because it was not their duty to give him that opinion." And then the court said: "That is clear, but they did notify him of the patent—of the prior patent." Counsel for defendants: "Yes, they cited the patent." And the court said: "And advised him of that, so he knew there was such a patent, and he took his own chances with reference to disposition."

Now, the instructions of the court did not withdraw that evidence from the jury in any explicit way. So that although Mr. Sewell's opinion that some of these previous citations dominated the Bilyeu patent goes out, there is left in the record and in the minds of the jury the fact that the Government at Washington had cited to the defendants these prior patents and the language of the court, in their hearing, that the defendants took their chances upon the disposition of their own patent.

In respect of this matter the court has not responded to the argument of our brief and the authorities there cited that a general instruction of this kind does not cure the error in admitting the evi-

dence. In addition to the authorities cited in our brief, we add another Oregon case.

State vs. Rader, 62 Or. 37.

Respectfully submitted,

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Attorneys for Plaintiffs in Error.

I hereby certify that I am counsel for the plaintiffs in error in the foregoing petition for rehearing; that in my judgment it is well founded, and that it is not interposed for delay.

MARTIN L. PIPES.